OJSC "PhosAgro"

Consolidated Financial Statements
for 2013
and Auditors' Report

Contents

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Auditors' Report

To the Shareholders and Board of Directors

OJSC "PhosAgro"

We have audited the accompanying consolidated financial statements of OJSC "PhosAgro" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: OJSC "PhosAgro"

Registered by the State Registration Chamber with the Russian Ministry of Justice on 10 October 2001. Registration No. P-18009.16.

Entered in the Unified State Register of Legal Entities on 5 September 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700190572, Certificate series 77 No. 005082819.

55/1 building 1, Leninsky prospekt, Moscow, Russian Federation, 119333

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No. 10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Romanenko A.M.

Director, (power of attorney dated 1 October 2013 No. 84/13)

ZAO KPMG

16 April 2014

Moscow, Russian Federation

	Note	2013 RUB Million	2012* RUB Million
Continuing operations			
Revenues	8	104,566	105,303
Cost of sales	10	(68,139)	(59,966)
Gross profit		**36,427**	**45,337**
Administrative expenses	11	(8,380)	(6,904)
Selling expenses	12	(8,378)	(7,437)
Taxes, other than income tax		(2,149)	(1,634)
Other expenses, net	13	(1,378)	(966)
Operating profit		**16,142**	**28,396**
Negative goodwill on consolidation of LLC "Metachem"		-	678
Finance income	14	1,138	2,070
Finance costs	14	(2,272)	(1,450)
Foreign exchange (loss)/gain		(2,999)	1,576
Share of profit of associates	17	19	166
Restructuring costs	9	(1,985)	(222)
Profit before income tax		**10,043**	**31,214**
Income tax expense	15	(1,740)	(6,704)
Profit from continuing operations		**8,303**	**24,510**
Discontinued operations			
Profit from discontinued operations, net of tax	7	273	-
Profit for the year		**8,576**	**24,510**
Attributable to:			
Non-controlling interests^	35	916	3,856
Shareholders of the Parent		7,660	20,654
Other comprehensive income/(loss)			
Revaluation of available-for-sale securities	17	-	282
Actuarial gains and losses, net of tax	27	(111)	(276)
Foreign currency translation difference		247	(396)
Other comprehensive income/(loss) for the year		**136**	**(390)**
Total comprehensive income for the year		**8,712**	**24,120**
Attributable to:			
Non-controlling interests^	35	901	3,794
Shareholders of the Parent		7,811	20,326
Basic and diluted earnings per share (in RUB)	25	60	166

^ non-controlling interests are the minority shareholders of the subsidiaries of OJSC "PhosAgro"
* comparative information has been re-presented, see note 2(e)

The consolidated financial statements were approved on 16 April 2014:

Chief executive officer
Guryev A.A.

Chief accountant
Valenkova E.V.

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45.

	Note	31 December 2013 RUB Million	31 December 2012 RUB Million
Assets			
Property, plant and equipment	16	75,928	66,393
Intangible assets		623	688
Investments in associates	17	8,485	9,620
Deferred tax assets	18	1,806	-
Other non-current assets	19	4,383	3,071
Non-current assets		**91,225**	**79,772**
Other current investments	20	1,585	833
Derivative financial assets		79	45
Inventories	21	12,293	12,324
Current income tax receivable		668	769
Trade and other receivables	22	11,464	11,874
Cash and cash equivalents	23	8,938	9,664
Assets held for sale, net	7	-	346
Current assets		**35,027**	**35,855**
Total assets		**126,252**	**115,627**
Equity	24		
Share capital		372	360
Share premium		7,494	1,099
Retained earnings		48,556	48,294
Other reserves		(116)	(267)
Equity attributable to shareholders of the Parent		56,306	49,486
Equity attributable to non-controlling interests	35	3,020	12,389
Total equity		**59,326**	**61,875**
Liabilities			
Loans and borrowings	26	39,550	14,452
Defined benefit obligations	27	971	1,257
Deferred tax liabilities	18	3,304	2,973
Non-current liabilities		**43,825**	**18,682**
Trade and other payables	29	9,377	12,377
Current income tax payable		518	676
Loans and borrowings	26	13,206	22,017
Current liabilities		**23,101**	**35,070**
Total equity and liabilities		**126,252**	**115,627**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45.

	Note	2013 RUB Million	2012 RUB Million
Cash flows from operating activities			
Profit before taxation		10,043	31,214
Adjustments for:			
Depreciation and amortisation	10, 11, 12	7,792	6,521
Negative goodwill on consolidation of LLC "Metachem"		-	(678)
Loss on disposal of fixed assets	13	91	193
Finance costs	14	2,272	1,450
Finance income	14	(1,138)	(2,070)
Share of profit of associates	17	(19)	(166)
Foreign exchange loss/(gain), net		3,252	(1,203)
Operating profit before changes in working capital and provisions		22,293	35,261
Decrease/(increase) in inventories		122	(1,843)
Decrease/(increase) in trade and other receivables		1,515	(324)
(Decrease)/increase in trade and other payables		(823)	915
Cash flows from operations before income taxes and interest paid		23,107	34,009
Income tax paid		(3,276)	(7,117)
Finance costs paid		(1,906)	(1,429)
Cash flows from operating activities		**17,925**	**25,463**
Cash flows from investing activities			
Loans repaid/(issued)		785	(153)
Acquisition of intangible assets		(198)	(110)
Acquisition of property, plant and equipment		(17,795)	(13,370)
Proceeds from disposal of property, plant and equipment		613	251
Cash of PhosInt Trading Ltd and PhosAgro Asia Pte Ltd acquired	34	1,143	-
Cash paid for CJSC "Nordic Rus Holding"	34	(1,680)	-
Proceeds from disposal of CJSC "Pikalevskaya soda" and part of manufacturing facilities within LLC "Metachem"	7	633	-
Cash from disposal of investments		107	648
Acquisition of investments in associates		-	(987)
Consolidation of LLC “Metachem”		-	84
Additional equity contribution in associates		-	(511)
Finance income received		911	1,579
Cash flows used in investing activities		**(15,481)**	**(12,569)**
Cash flows from financing activities			
Proceeds from issuance of additional shares	24	6,407	-
Proceeds from borrowings		47,559	21,375
Repayment of borrowings		(36,979)	(15,941)
Acquisition of non-controlling interests	24	(11,674)	(12,047)
Dividends paid to non-controlling interests		(2)	(364)
Dividends paid to shareholders of the Parent		(7,511)	(11,890)
Finance leases paid		(1,465)	(1,169)
Cash flows used in financing activities		**(3,665)**	**(20,036)**
Net decrease in cash and cash equivalents		**(1,221)**	**(7,142)**
Cash and cash equivalents at 1 January		9,664	16,946
Effect of changes in exchange rates		495	(140)
Cash and cash equivalents at 31 December		**8,938**	**9,664**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45.

RUB Million	Attributable to shareholders of the Parent							
	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Actuarial gains and losses recognised in equity	Foreign currency translation reserve	Attributable to non-controlling interests	Total
Balance at 1 January 2012	360	1,099	42,265	(305)	(133)	499	16,923	60,708
Total comprehensive income for the year								
Profit for the year	-	-	20,654	-	-	-	3,856	24,510
Revaluation of available-for-sale securities	-	-	-	282	-	-	-	282
Actuarial gains and losses, net of tax	-	-	-	-	(214)	-	(62)	(276)
Foreign currency translation difference	-	-	-	-	-	(396)	-	(396)
	-	-	20,654	282	(214)	(396)	3,794	24,120
Transactions with owners recognised directly in equity								
Effect of merger, see note 24(d)	-	-	846	-	-	-	(1,213)	(367)
Acquisition of non-controlling interest in a subsidiary, see note 24(e)	-	-	(3,583)	-	-	-	(7,527)	(11,110)
Consolidation of LLC “Metachem”, see note 17	-	-	-	-	-	-	773	773
Dividends to shareholders of the Parent, see note 24(c)	-	-	(11,888)	-	-	-	-	(11,888)
Dividends to non-controlling interests	-	-	-	-	-	-	(361)	(361)
	-	-	(14,625)	-	-	-	(8,328)	(22,953)
Balance at 31 December 2012	360	1,099	48,294	(23)	(347)	103	12,389	61,875
Balance at 1 January 2013	360	1,099	48,294	(23)	(347)	103	12,389	61,875
Total comprehensive income for the year								
Profit for the year	-	-	7,660	-	-	-	916	8,576
Actuarial gains and losses, net of tax	-	-	-	-	(96)	-	(15)	(111)
Foreign currency translation difference	-	-	-	-	-	247	-	247
	-	-	7,660	-	(96)	247	901	8,712
Transactions with owners recognised directly in equity								
Issuance of new ordinary shares, see note 24(a)	12	6,395	-	-	-	-	-	6,407
Acquisition of non-controlling interest in a subsidiary, see note 24(e)	-	-	(2,820)	-	-	-	(10,268)	(13,088)
Dividends to shareholders of the Parent, see note 24(c)	-	-	(4,578)	-	-	-	-	(4,578)
Dividends to non-controlling interests	-	-	-	-	-	-	(2)	(2)
	12	6,395	(7,398)	-	-	-	(10,270)	(11,261)
Balance at 31 December 2013	372	7,494	48,556	(23)	(443)	350	3,020	59,326

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 45.

1. BACKGROUND

(a) Organisation and operations

OJSC “PhosAgro” (the “Company” or the “Parent”) and its subsidiaries (together referred to as the “Group”) comprise Russian legal entities. The Company was registered in October 2001. The Company’s registered office is Leninsky prospekt 55/1 building 1, Moscow, Russian Federation.

The Group’s principal activity is production of apatite concentrate and mineral fertilisers at plants located in the cities of Kirovsk (Murmansk region), Cherepovets (Vologda region), Balakovo (Saratov region) and Volkhov (Leningrad region), and their distribution across the Russian Federation and abroad.

The Company's key shareholders are several Cyprus entities holding between 5% and 10% of the Company's ordinary shares each. The majority of the shares of the Company are ultimately owned by trusts, where the economic beneficiary is Mr. Andrey Guryev and his family members.

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial conditions of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and in accordance with the Federal Law No. 208 – FZ “On consolidated financial statements”.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments available-for-sale and derivative financial instruments are stated at fair value; property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as of 1 January 2005.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the functional currency of the Parent and most of the subsidiaries. All financial information presented in RUB has been rounded to the nearest million, except per share amounts.

These consolidated financial statements are presented in RUB.

The translation from USD into RUB, where applicable, was performed as follows:

- Assets and liabilities as of 31 December 2013 were translated at the closing exchange rate of RUB 32.7292 for USD 1 (31 December 2012: RUB 30.3727 for USD 1);
- Profit and loss items were translated at the average exchange rate for 2013 of RUB 31.8480 for USD 1 (2012: RUB 31.0930 for USD 1).

- Equity items, which were recognised at the date of adoption of IFRS, 1 January 2005, were translated at the exchange rate of RUB 27.7487 for USD 1. Equity items arising during the year are recognised at the exchange rate ruling at the date of transaction.
- The resulting foreign exchange difference is recognised in other comprehensive income.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(e) Prior year adjustments and reclassifications

During the current period the Group made a decision to make certain reclassifications of expenses for the year ended 31 December 2012 on materials and services, depreciation, amortisation, salaries and social contributions between cost of sales, administrative expenses, other expenses, net and restructuring costs in order to align them with the current year's presentation:

	As previously presented 2012 RUB Million	Reclassifications 2012 RUB Million	As adjusted 2012 RUB Million
Cost of sales	(60,136)	170	(59,966)
Administrative expenses	(6,646)	(258)	(6,904)
Selling expenses	(7,720)	283	(7,437)
Other expenses, net	(993)	27	(966)
Restructuring costs	-	(222)	(222)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Acquisitions and disposals of non-controlling interests

Any difference between the consideration paid to acquire a non-controlling interest, and the carrying amount of that non-controlling interest, is recognised in equity.

Any difference between the consideration received from disposal of a portion of a Group's interest in the subsidiary and the carrying amount of that portion, including attributable goodwill, is recognised in equity.

(iv) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to RUB at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to RUB at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUB at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the profit and loss.

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRS was determined by reference to its fair value at that date ("deemed cost") as determined by an independent appraiser.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the profit and loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the profit and loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the month following the month of acquisition or, in respect of internally constructed assets, from the month following the month an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives as determined when adopting IFRS (1 January 2005) are as follows:

- Buildings 12 to 17 years;
- Plant and equipment 4 to 15 years;
- Fixtures and fittings 3 to 6 years.

Tangible fixed assets acquired after the date of adoption of IFRS, are depreciated over the following useful lives:

- Buildings 10 to 60 years;
- Plant and equipment 5 to 35 years;
- Fixtures and fittings 2 to 25 years.

(d) Intangible assets and negative goodwill

(i) Goodwill and negative goodwill

Adoption of IFRS

The Parent Company elected not to apply the requirements of IFRS 3 *Business combinations* to business combinations, which took place prior to the date of adoption of IFRS. As a result, no goodwill was recognised at the date of adoption of IFRS.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the profit and loss as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iii) Other intangible assets

Other intangible assets acquired by the Group are represented by Oracle software, which has finite useful life and is stated at cost less accumulated amortisation and impairment losses.

(iv) Amortisation

Intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are 3 – 10 years.

(e) Investments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Held-to-maturity investments: If the Group has the positive intent and ability to hold debt instruments to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets: The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i), and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the profit and loss.

Other: Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

The Group from time to time buys derivative financial instruments to manage its exposure to foreign currency risk. All derivatives are recognised on the balance sheet at fair value. The derivates are not designated as hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value with the changes in fair value recognized in profit and loss.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(i) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between initial value and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest basis.

(l) Employee benefits

(i) Pension plans

The Group’s net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, if any, is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. The calculation is performed using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit and loss on a straight line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the expense is recognised immediately in the profit and loss.

All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(ii) Long-term service benefits other than pensions

The Group’s net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. All actuarial gains and losses are recognised in full as they arise in other comprehensive income.

(iii) State pension fund

The Group makes contributions for the benefit of employees to Russia’s State pension fund. The contributions are expensed as incurred.

(m) Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Revenues

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. Transfer may occur when the product is dispatched from the Group companies’ warehouses (mainly for domestic dispatches) or upon loading the goods onto the relevant carrier (mainly for export).

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

Revenue from services rendered is recognised in the profit and loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(q) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(r) Overburden removal expenditure

In open pit apatit rock mining operations, it is necessary to remove the overburden and other waste in order to access the economically recoverable resources.

Stripping costs incurred during the pre-production phase of the open pit mine are capitalised as the cost of the development of the mining property and amortised over the life of the mine.

According to the Group’s approach to stripping, an ore accessible after the overburden removal process is extracted within three months. Therefore, the stripping ratio (volume of overburden removed over the volume of resources extracted) is relatively constant over the periods and stripping costs incurred during the production phase of the open pit mine are recognised in the profit or loss as incurred.

(s) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at large and are not restricted to the Group’s employees, they are recognised in the profit and loss as incurred.

(t) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

If the number of ordinary shares outstanding increases/(decreases) as a result of a share split/(reverse share split), the calculation of the EPS for all periods presented is adjusted retrospectively.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. All operating segments’ operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, related head office expenses and Group’s associates.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

(v) Adoption of new and revised standards and interpretations

The following new standards, amendments to standards and interpretations became effective for the Group from 1 January 2013:

- Amended IAS 19 *Employee Benefits*, which makes changes to the recognition and measurement of defined benefit expense and termination benefits, and to the disclosures for all employee benefits. This amendment does not have a material effect on the Group’s consolidated financial statements.
- Amended IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and contains the requirements for the application of the equity method to investments in associates and joint ventures. This amendment does not have a significant impact on the Group’s consolidated financial statements.
- Amended IFRS 7 *Disclosures – Offsetting financial assets and financial liabilities* requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting

arrangements, including rights of set-off. This amendment does not have a significant impact on the Group’s consolidated financial statements.

- IFRS 10 *Consolidated financial statements*, which replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC-12 *Consolidation – special purpose entities*. The new standard does not have a significant impact on the Group’s consolidated financial statements.
- IFRS 12 *Disclosure of interests in other entities*, which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The Group has expanded its disclosure about its interests in subsidiaries, see note 35.
- IFRS 13 *Fair value measurement*, which aims to improve disclosures and achieve consistency by providing a revised definition of fair value. The new standard does not have a significant impact on the Group’s consolidated financial statements.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. Under the interpretation, production stripping costs that provide access to resources to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified and future benefits arising from the improved access are both probable and reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. The effect of adoption of this IFRIC is explained in note 3(r).

(w) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 (effective for annual periods beginning on or after 1 January 2017) was issued in November 2009 and relates to the classification and measurement of financial assets. The Group is currently assessing the impact of the standard on the consolidated financial statements and does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Group does not expect the amendments to have any material effect on its consolidated financial statements.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The amendment will have an impact only on disclosures of an impairment of assets in the consolidated financial statements.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods described in 4(a) to 4(d). When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

For non-quoted investments the fair value, if reliably measurable, is determined using valuation models.

(b) Derivative financial instruments

The fair value is assessed using discounted cash flow technique, where possible using observable inputs, which corresponds to level 2 of the hierarchy of the fair value measurements.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. FINANCIAL RISK MANAGEMENT

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, and loans issued to related parties.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual specific characteristics of each customer. The general characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum amount of outstanding receivables; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics. Trade and other receivables relate mainly to the Group's wholesale customers.

The Group does not require collateral in respect of trade and other receivables, except for new customers who are required to work on a prepayment basis or present an acceptable bank guarantee or set up letter of credit with an acceptable bank.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Current and non-current financial assets and cash and cash equivalents

The Group lends money to related parties, who have good credit standing. Based on the prior experience, management believes that there is no significant credit risk in respect of related party loans.

Cash and cash equivalents are primarily held with banks with high credit rating. In order to manage liquidity, the Group buys promissory notes of banks with high credit rating.

(iii) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group's policy is to provide financial guarantees only to the subsidiaries or related parties.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Group maintains several lines of credit in various Russian and international banks.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(e) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, being the Russian Rouble (RUB). The currencies giving rise to this risk are primarily USD and Euro.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group uses from time to time derivative financial instruments in order to manage its exposure to currency risk.

The Group sticks to a natural hedge approach/policy aiming at reducing its exposure to foreign currency risk by means of borrowing in the same currencies which dominate in sales agreements.

(f) Interest rate risk

Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(g) Capital management

The Board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital invested and the level of dividends to shareholders.

There were no changes in the Board’s approach to capital management during the year.

The Company and its subsidiaries are subject to externally imposed capital requirements including the statutory requirements of the country of their domicile and the bank covenants, see note 26.

6. SEGMENT INFORMATION

The Group has two reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer different products, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group’s reportable segments:

- *Phosphate-based products segment* includes mainly production and distribution of ammophos, diammoniumphosphate, sodium tripoly phosphate and other phosphate based and complex (NPK) fertilisers on the factories located in Cherepovets, Balakovo and Volkhov, and production and distribution of apatite concentrate extracted from the apatite-nepheline ore, which is mined and processed in Kirovsk;
- *Nitrogen-based products segment* includes mainly production and distribution of ammonia, ammonium nitrate and urea on the factory located in Cherepovets.

Certain assets, revenue and expenses are not allocated to any particular segment and are, therefore, included in the “other operations” line. None of these operations meet any of the quantitative thresholds for determining reportable segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on gross profit, as included in internal management reports that are reviewed by the Group’s CEO.

Business segment information of the Group as at 31 December 2013 and for the year ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	91,065	12,810	691	-	104,566
Export	60,703	10,153	-	-	70,856
Domestic	30,362	2,657	691	-	33,710
Inter-segment transfers	-	99	-	(99)	-
Cost of goods sold	(59,588)	(10,036)	(615)	99	(70,140)
Gross segment profit	31,477	2,873	76	-	34,426
Certain items of profit and loss					
Amortisation and depreciation	(5,683)	(1,797)	(144)	-	(7,624)
Total non-current segment assets	51,930	14,309	2,232	-	68,471
Additions to non-current assets	13,849	2,192	396	-	16,437

Business segment information of the Group as at 31 December 2012 and for the year ended is as follows:

RUB million	Phosphate-based products	Nitrogen-based products	Other operations	Inter-segment elimination	Total
Segment revenue and profitability					
Segment external revenues, thereof:	91,233	13,048	1,022	-	105,303
Export	60,759	11,404	-	-	72,163
Domestic	30,474	1,644	1,022	-	33,140
Inter-segment transfers	-	2,146	-	(2,146)	-
Cost of goods sold	(54,824)	(7,632)	(920)	2,146	(61,230)
Gross segment profit	36,409	7,562	102	-	44,073
Certain items of profit and loss					
Amortisation and depreciation	(5,089)	(688)	(135)	-	(5,912)
Total non-current segment assets	45,200	13,309	2,657	-	61,166
Additions to non-current assets	9,855	3,700	64	-	13,619

The analysis of export revenue by regions is as follows:

	2013 RUB Million	2012 RUB Million
Europe	24,174	16,822
North and South America	20,821	24,380
Asia	9,055	9,051
Africa	7,974	7,579
CIS	7,409	6,877
India	1,423	7,454
	70,856	**72,163**

The Group distributes its products globally through large independent traders and distributors. The sales volume may vary from one trader to another. In 2013, revenue from sales of phosphate-based products to one single trader amounted to approximately 7% (RUB 7,087 million) of the Group’s total revenue. In 2012, revenue to another single trader amounted to approximately 10% (RUB 10,857 million) of the Group’s total revenue.

	2013 RUB Million	2012 RUB Million
Total segment revenues	104,566	105,303
Consolidated revenues	**104,566**	**105,303**

	2013 RUB Million	2012 RUB Million
Total segmental profit	34,426	44,073
Difference in depreciation and amortisation	50	(338)
Difference in timing of expenses recognition	427	171
Reallocation of administrative expenses	3	(145)
Reallocation of selling expenses	(82)	(160)
Reallocation of other income	(8)	887
Reallocation of capitalized expenses	320	387
Elimination of unrealized profit	(94)	(224)
Recognition of finance lease	1,447	794
Other adjustments	(62)	(108)
Consolidated gross profit	**36,427**	**45,337**

	2013 RUB Million	2012 RUB Million
Total non-current segment assets	68,471	61,166
Difference in the carrying value of the tangible assets	8,080	5,915
Consolidated non-current assets	**76,551**	**67,081**

7. DISPOSAL GROUP HELD FOR SALE

During 2013 the Group sold 100% stake in CJSC “Pikalevskaya soda” for total consideration RUB 376 million and part of manufacturing facilities within LLC “Metachem” for total consideration of RUB 257 million.

The disposal group comprised the following assets and liabilities.

	31 December 2013 RUB Million	31 December 2012 RUB Million
Property, plant and equipment	-	149
Deferred tax assets	-	38
Inventories	-	27
Trade and other receivables	-	112
Cash and cash equivalents	-	82
Trade and other payables	-	(62)
Assets held for sale, net	**-**	**346**

Results of discontinued operations for 2013 are as follows.

	RUB Million
Revenues	1,586
Reversal of impairment	240
Expenses	(1,506)
Results from operating activities	320
Income tax expense	(47)
Profit for the year	**273**

A reversal of impairment loss of RUB 240 million has been included in ‘profit from discontinued operations, net of tax’ in the statement of profit or loss and other comprehensive income.

Cash flows from discontinued operations for 2013 are as follows.

	RUB Million
Net cash from operating activities	422
Net cash from financing activities	55
Net cash flows for the period	**477**

8. REVENUES

	2013 RUB Million	2012 RUB Million
Sales of chemical fertilisers	78,939	79,956
Sales of apatite concentrate	16,887	19,452
Sales of sodium tripolyphosphate	3,605	-
Sales of nepheline concentrate	704	721
Sales of ammonium	102	1,023
Other sales	4,329	4,151
	104,566	**105,303**

9. PERSONNEL COSTS

	2013 RUB Million	2012 RUB Million
Cost of sales	(12,022)	(11,602)
Administrative expenses	(4,889)	(4,065)
Selling expenses	(351)	(289)
Restructuring costs	(1,985)	(222)
	(19,247)	**(16,178)**

Personnel costs include salaries and wages, termination benefits, social contributions and current pension service costs.

Restructuring costs

During the 2012 the Group started implementing plan on staff optimization in key subsidiaries. The plan envisages reduction in the number of employees by either outsourcing relevant functions to third party suppliers or due to internal efficiency measures. The costs relating to such program, mainly comprising the termination benefits and related social contributions amount to RUB 1,985 million for the year ended 31 December 2013. The program is planned for finalization in 2014 and a provision of RUB 472 million relating to the completion of this program has been recognized in the accruals within trade and other payables.

10. COST OF SALES

	2013 RUB Million	2012 RUB Million
Materials and services	(21,663)	(18,419)
Salaries and social contributions	(12,022)	(11,602)
Depreciation	(7,147)	(5,933)
Natural gas	(6,300)	(5,733)
Ammonia	(4,671)	(2,904)
Fuel	(4,161)	(4,579)
Potash	(4,114)	(4,598)
Electricity	(3,478)	(3,255)
Sulphur and sulphuric acid	(3,428)	(3,597)
Ammonium sulphate	(1,157)	(664)
Other items	(53)	(87)
Change in stock of WIP and finished goods	55	1,405
	(68,139)	**(59,966)**

11. ADMINISTRATIVE EXPENSES

	2013 RUB Million	2012 RUB Million
Salaries and social contributions	(4,889)	(4,065)
Professional services	(693)	(692)
Depreciation and amortisation	(559)	(531)
Other	(2,239)	(1,616)
	(8,380)	**(6,904)**

12. SELLING EXPENSES

	2013 RUB Million	2012 RUB Million
Russian Railways infrastructure tariff	(4,334)	(3,825)
Port and stevedoring expenses	(2,577)	(2,309)
Materials and services	(1,030)	(957)
Salaries and social contributions	(351)	(289)
Depreciation and amortisation	(86)	(57)
	(8,378)	**(7,437)**

13. OTHER EXPENSES, NET

	2013 RUB Million	2012 RUB Million
Social expenditures	(1,365)	(825)
Loss on disposal of fixed assets	(91)	(193)
Decrease in provision for inventory obsolescence	115	7
Increase in provision for bad debt	(65)	(32)
Other income	28	77
	(1,378)	**(966)**

14. FINANCE INCOME AND FINANCE COSTS

	2013 RUB Million	2012 RUB Million
Interest income	883	1,071
Gain on revaluation of derivative financial instruments	172	679
Dividend income	24	10
Other finance income	59	310
Finance income	1,138	2,070
Interest expense	(2,026)	(1,193)
Other finance costs	(246)	(257)
Finance costs	(2,272)	(1,450)
Net finance (costs)/income	**(1,134)**	**620**

15. INCOME TAX EXPENSE

The Company’s applicable corporate income tax rate is 20% (2012: 20%).

	2013 RUB Million	2012 RUB Million
Current tax expense	(3,204)	(6,431)
Origination and reversal of temporary differences, including change in unrecognised assets	1,464	(273)
	(1,740)	**(6,704)**

Reconciliation of effective tax rate:

	2013 RUB Million	%	2012 RUB Million	%
Profit before taxation	10,043	100	31,214	100
Income tax at applicable tax rate	(2,009)	(20)	(6,243)	(20)
Over provided in respect of prior years	30	-	7	-
Income tax on intra-group dividends	-	-	(416)	(1)
Unrecognised tax liability on income from associates	4	-	33	-
Recognition of previously unrecognised deferred tax assets	-	-	461	1
Non-deductible items	(543)	(5)	(249)	-
Decrease/(increase) in unrecognised deferred tax assets	778	8	(297)	(1)
	(1,740)	**(17)**	**(6,704)**	**(21)**

Deferred tax assets in the amount of RUB 778 million, relating to tax losses which arose prior to 2013, were recognised in the current year as management reconsidered its plans for the utilisation of such tax losses and its became probable that such losses will be utilised and sufficient taxable profits will be available. Deferred tax assets in the amount of RUB 1,391 million, relating to tax losses of the current year, were also recognised during the current year, see note 18.

16. PROPERTY, PLANT AND EQUIPMENT

RUB Million	Land and buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2012	13,856	45,336	1,949	20,632	81,773
Reclassification	465	(2,097)	1,632	-	-
Additions	394	1,269	417	12,801	14,881
Consolidation of LLC "Metachem"	444	346	69	421	1,280
Transfers	5,504	9,685	59	(15,248)	-
Disposals	(153)	(893)	(114)	(61)	(1,221)
At 1 January 2013	20,510	53,646	4,012	18,545	96,713
Additions	75	1,753	689	15,145	17,662
Transfers	3,198	5,620	3	(8,821)	-
Disposals	(277)	(1,223)	(120)	(30)	(1,650)
At 31 December 2013	23,506	59,796	4,584	24,839	112,725
Accumulated depreciation					
At 1 January 2012	(3,722)	(20,114)	(939)	-	(24,775)
Reclassification	(37)	1,139	(1,102)	-	-
Depreciation charge	(792)	(5,040)	(471)	-	(6,303)
Disposals	43	637	78	-	758
At 1 January 2013	(4,508)	(23,378)	(2,434)	-	(30,320)
Depreciation charge	(1,043)	(5,843)	(672)	-	(7,558)
Disposals	62	913	106	-	1,081
At 31 December 2013	(5,489)	(28,308)	(3,000)	-	(36,797)
Net book value at 1 January 2012	10,134	25,222	1,010	20,632	56,998
Net book value at 1 January 2013	16,002	30,268	1,578	18,545	66,393
Net book value at 31 December 2013	18,017	31,488	1,584	24,839	75,928

(a) Impairment testing

At the reporting date the Group performed an impairment testing under IAS 36. Cash flow forecasts for different factories representing separate cash-generating units were prepared for the forecast period of 5 years and a terminal value was derived after the forecast period. The following assumptions were applied in the impairment testing:

- After-tax discount rate 12.6% (2012: 12.9%)
- Terminal growth rate 3% (2012: 3%)

Based on the analysis, no impairment loss was recognised. A 1% increase in the discount rate would not have resulted in an impairment loss in any of the cash generating units tested.

(b) Security

Properties with a carrying amount of RUB 599 million (31 December 2012: RUB 1,270 million) are pledged to secure bank loans, see note 26.

(c) Leasing

Plant and equipment with the carrying value of RUB 4,984 million (31 December 2012: RUB 3,679 million) is leased under various finance lease agreements, see note 28.

17. INVESTMENTS IN ASSOCIATES

PhosInt Limited

In September and October 2010, two Group subsidiaries, PhosInt Limited and PhosAsset GmbH, increased their share capital which was subscribed by a related party resulting in the dilution of the Group's shareholding in these entities to 49%. As a consequence these entities and Nordwest AG, a subsidiary of PhosAsset GmbH (further the PhosInt Group) were deconsolidated from the Group. At the same time, the Group retained its right for the distribution of all accumulated earnings and reserves relating to these entities prior to the date of loss of control as determined by the executive management by reference to the IFRS financial statements of these entities. In 2011, dividend in the amount of RUB 1,840 million was accrued and paid from PhosInt Group to the Company out of the opening balance of retained earnings.

As at 31 December 2010, 2011, 2012 and 2013 these entities held primarily equity and debt instruments of Russian issuers recognized at fair value, loans issued and cash. Accordingly, the fair value of the net assets of these entities approximated the book value.

Once the total dividend distributed will reach the amount of retained earnings of PhosInt Group at the date of loss of control, any subsequent dividend will be made proportionate to the shareholding in these companies.

LLC "Metachem"

In May 2011, the Group entered into acquisition agreement for 24% of LLC "Metachem" and 21.85% of CJSC "Pikalevskaya soda" for a total consideration of RUB 313 million. In July 2011, the Group sold its investment in CJSC "Pikalevskaya soda" for RUB 145 million to CJSC "Metachem". In December 2012, the Group contributed RUB 1,200 million to the charter capital of LLC "Metachem" increasing the Group's ownership to 74.76%

In June 2013, the Group acquired an additional 25.24% in LLC "Metachem" for a consideration of USD 30.95 million (RUB 1,012 million). The financial effect of this transaction is a decrease in non-controlling interests by RUB 818 million and a decrease in retained earnings by RUB 194 million. As a result, the Group's ownership in LLC "Metachem" increased to 100%.

CJSC "Nordic Rus Holding"

In October 2012, the Group acquired 24% of CJSC "Nordic Rus Holding" for a total consideration of USD 31.76 million (RUB 987 million). CJSC "Nordic Rus Holding" is a minority shareholder of OJSC "Apatit". In August 2013, the Group acquired 76% in CJSC "Nordic Rus Holding" for a consideration of RUB 4,676 million (USD 141.92 million) increasing the Group's ownership to 100%, see note 34(a).

PhosInt Trading Limited and PhosAgro Asia Pte Ltd

In August 2013, the Group acquired 100% in PhosInt Trading Limited which is an owner of 100% PhosAgro Asia Pte Ltd for a consideration of RUB 146 million (USD 4.41 million) paid to the preceding owner PhosInt Limited increasing the Group's ownership to 100%, see note 34(b).

The movement in the balance of investments in associates is as follows:

	2013 RUB Million	2012 RUB Million
Balance at 1 January	9,620	7,910
Share in profit for the year	19	166
Share in CJSC “Nordic Rus Holding” at the date of acquisition of control, see note 34(a)	(1,406)	-
Foreign currency translation difference	252	(396)
Share in revaluation gain on available-for-sale securities	-	282
Additional equity contributions	-	1,081
Acquisition of CJSC “Nordic Rus Holding”	-	987
Consolidation of LLC “Metachem”	-	(410)
Balance at 31 December	**8,485**	**9,620**

Carrying values of the Group’s investment in associates at 31 December 2013 and 2012 are as follows:

	2013 RUB Million	2012 RUB Million
PhosInt Group	7,843	7,661
PHOSAGRO-UKRAINE	111	111
Khibinskaya Teplovaya Kompaniya	400	400
Nordic Rus Holding	-	1,448
Other	131	-
	8,485	**9,620**

Summary financial information for associates is as follows:

2013	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	Profit for the year RUB Million
PhosInt Group	10,291	(2,478)	7,813	7,054	(151)
PHOSAGRO-UKRAINE	774	(607)	167	805	44
Khibinskaya Teplovaya Kompaniya	3,166	(2,302)	864	106	(35)
Other	669	(150)	519	805	162
	14,900	**(5,537)**	**9,363**	**8,770**	**20**

2012	Total assets RUB Million	Total liabilities RUB Million	Net assets RUB Million	Revenue RUB Million	Profit for the year RUB Million
PhosInt Group	9,435	(1,553)	7,882	2,754	325
Metachem Group [1]	4,370	(1,309)	3,061	7,017	606
PHOSAGRO-UKRAINE	352	(359)	(7)	2,112	20
Khibinskaya Teplovaya Kompaniya	1,649	(750)	899	4	2
Nordic Rus Holding [2]	5,888	(49)	5,839	-	49
	21,694	**(4,020)**	**17,674**	**11,887**	**1,002**

[1] For the period ended 21 December 2012, the date of consolidation
[2] For the three-month period ended 31 December 2012

18. DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

RUB Million	Assets 2013	Liabilities 2013	Net 2013	Assets 2012	Liabilities 2012	Net 2012
Property, plant and equipment	11	(4,642)	(4,631)	9	(3,990)	(3,981)
Other long-term assets	46	(3)	43	67	(41)	26
Current assets	329	(471)	(142)	271	(315)	(44)
Liabilities	1,121	(30)	1,091	1,055	(1)	1,054
Tax loss carry-forwards	2,172	-	2,172	781	-	781
Provision for tax loss carry-forwards	(31)	-	(31)	(781)	-	(781)
Unrecognised deferred tax assets	-	-	-	(28)	-	(28)
Tax assets / (liabilities)	3,648	(5,146)	(1,498)	1,374	(4,347)	(2,973)
Set off of tax	(1,842)	1,842	-	(1,374)	1,374	-
Net tax assets / (liabilities)	1,806	(3,304)	(1,498)	-	(2,973)	(2,973)

The unrecognised tax losses expire within six-ten years from the reporting date.

Deferred tax assets in the amount of RUB 778 million, relating to tax losses which arose prior to 2013, were recognised in the current year as management reconsidered its plans for the utilisation of such tax losses, see note 15.

The aggregate amount of temporary differences associated with investment in subsidiaries at the reporting date is RUB 41,763 million (31 December 2012: RUB 32,347 million). The deferred tax liability for these temporary differences has not been recognised because the Parent can control the timing of reversal of the temporary difference and it is probable that temporary differences will not reverse in the foreseeable future.

(b) Movement in temporary differences during the year

	2013	Recognised in profit or loss	Recognised in other comprehensive income	2012
Property, plant and equipment	(4,631)	(650)	-	(3,981)
Other long-term assets	43	17	-	26
Current assets	(142)	(98)	-	(44)
Liabilities	1,091	26	11	1,054
Tax loss carry-forwards	2,172	1,391	-	781
Provision for tax loss carry-forwards	(31)	750	-	(781)
Unrecognised deferred tax assets	-	28	-	(28)
Net tax assets / (liabilities)	**(1,498)**	**1,464**	**11**	**(2,973)**

	2012	Recognised in profit or loss	Recognised in other comprehensive income	2011
Property, plant and equipment	(3,981)	(716)	-	(3,265)
Other long-term assets	26	198	-	(172)
Current assets	(44)	(9)	-	(35)
Liabilities	1,054	340	150	564
Tax loss carry-forwards	781	211	-	570
Provision for tax loss carry-forwards	(781)	(343)	-	(438)
Unrecognised deferred tax assets	(28)	46	-	(74)
Net tax assets / (liabilities)	**(2,973)**	**(273)**	**150**	**(2,850)**

19. OTHER NON-CURRENT ASSETS

	31 December 2013 RUB Million	31 December 2012 RUB Million
Advances issued for property, plant and equipment	2,864	1,511
Financial assets available-for-sale, at cost	627	753
Loans issued to employees, at amortised cost	384	325
Loans issued to related parties, at amortised cost	48	38
Financial assets available-for-sale, at fair value	81	75
Finance lease receivable	74	58
Other long-term receivables	305	311
	4,383	**3,071**

20. OTHER CURRENT INVESTMENTS

	31 December 2013 RUB Million	31 December 2012 RUB Million
Investments in debt securities, at amortised cost	1,473	-
Loans issued to related parties, at amortised cost	17	57
Loans issued to employees, at amortised cost	73	82
Loans issued to associates, at amortised cost	-	664
Other loans issued, at amortised cost	22	30
	1,585	**833**

Loans issued to associates represent a RUB-denominated loan issued in 2012 by OJSC "Apatit" to OJSC "Khibinskaya Teplovaya Kompaniya", bearing interest of 9%. The loan was repaid in March 2013.

21. INVENTORIES

	31 December 2013 RUB Million	31 December 2012 RUB Million
Raw materials:		
Raw materials and spare parts	5,472	5,918
Apatite concentrate	923	1,025
Apatite-nepheline ore	1,260	913
Finished goods:		
Chemical fertilisers	4,029	3,995
Apatite concentrate	239	178
Work-in-progress	479	534
Other goods for resale	34	19
Provision for obsolescence	(143)	(258)
	12,293	**12,324**

22. TRADE AND OTHER RECEIVABLES

	31 December 2013 RUB Million	31 December 2012 RUB Million
Taxes receivable	5,063	4,617
Trade accounts receivable	4,175	4,458
Advances issued	2,172	2,802
Other receivables	338	292
Deferred expenses	110	33
Receivables from employees	14	43
Finance lease receivable	49	21
Provision for doubtful accounts	(457)	(392)
	11,464	**11,874**

Included in trade and other receivables are trade accounts receivable with the following ageing analysis as at the reporting dates:

	31 December 2013 RUB Million	31 December 2012 RUB Million
Not past due	3,758	3,750
Past due 0-180 days	138	357
Past due 180-365 days	2	95
More than one year	277	256
	4,175	**4,458**

23. CASH AND CASH EQUIVALENTS

	31 December 2013 RUB Million	31 December 2012 RUB Million
Cash in bank	6,585	7,258
Call deposits	2,349	2,404
Petty cash	4	2
	8,938	**9,664**

24. EQUITY

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares
Shares on issue at 31 December 2013, RUB 2.5 par value	129,500,000
Shares authorised for additional issue at 31 December 2013, RUB 2.5 par value	994,977,080
Shares on issue at 31 December 2012, RUB 2.5 par value	124,477,080
Shares authorised for additional issue at 31 December 2012, RUB 2.5 par value	1,000,000,000

The historical amount of the share capital of RUB 311 million has been adjusted for the effect of hyperinflation to comply with IAS 29 *“Financial Reporting in Hyperinflationary economies”*.

In February 2006, the Company issued 1,764,001 preferred shares of class “A1” and 35,999 preferred shares of class “A2”, both with a par value of 25 Russian Rubles. The issue price was 140 and 200 Russian Rubles per share for the shares of class “A1” and “A2”, respectively. The total proceeds from the share issue were RUB 254 million.

During 2011, the preferred shares were converted into the same number of ordinary shares.

In December 2011, the extraordinary meeting of the shareholders decided to split each ordinary share with the par value of 25 RUB each into 10 ordinary shares with the par value of 2.5 RUB each. The share split was completed in March 2012. As a result, the Company's issued share capital is comprised of 124,477,080 ordinary shares having par value of 2.5 RUB each. The Company's authorised an additional 1,000,000,000 ordinary shares for issue with a par value of 2.5 RUB each.

In October 2012, the Board of Directors decided to increase the Company's share capital by issuing 13.5 million new ordinary shares with a par value of 2.5 RUB each. In November 2012, the Federal Financial Markets Service of Russia registered this additional share issue. In accordance with Russian legislation, the new shares may be placed within one year (with the possible extension) after the date of the state registration of the share issue and all the existing shareholders have pre-emptive rights to purchase the new shares in an amount pro rata to the number of ordinary shares they own. On 10 April 2013, the Company began the issuance of new shares with an offering price of USD 42 per ordinary share. The Company completed the new shares' issuance in May 2013 with a total of 5,022,920 ordinary shares being subscribed for. The proceeds from the share issuance were USD 210.96 million (RUB 6,635 million). Transaction costs of RUB 228 million were deducted from the share premium. As a result, the Company's issued share capital comprises 129,500,000 ordinary shares with a par value of 2.5 RUB each.

(b) Dividend policy

The Company expects to distribute cash dividends in the future and expects the amount of such dividends to be between 20 and 40 per cent. of the Group's consolidated profit calculated in accordance with IFRS attributable to shareholders of OJSC "PhosAgro".

Whether the Company will pay dividends and the timing and exact amount of such dividends will be subject to the approval of the recommendation made by the Board of Directors at the General Shareholders' Meeting and will depend on a variety of factors, including the Company's earnings, cash requirements, financial condition and other factors deemed relevant by the Board of Directors in making their recommendation to the General Shareholders' Meeting.

(c) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2013, the Company had cumulative retained earnings of RUB 14,537 million (31 December 2012: RUB 11,564 million).

In April 2013, the Board of Directors proposed paying a dividend of RUB 19.9 per ordinary share to shareholders included in the register of shareholders as of 22 April 2013. The total amount of proposed dividends was RUB 2,577 million. In June 2013, the proposed dividend payout was approved by a meeting of shareholders.

In August 2013, the Board of Directors proposed paying a dividend of RUB 15.45 per ordinary share to shareholders included in the register of shareholders as of 6 September 2013. The total amount of proposed dividends was RUB 2,001 million. In October 2013, the proposed dividend payout was approved by a meeting of shareholders.

(d) Merger of OJSC "Ammophos" and JSC "Cherepovetsky "Azot"

In February 2012, the shareholders of two of the Group's subsidiaries, OJSC "Ammophos" and JSC "Cherepovetsky "Azot" passed a resolution to merge into one legal entity – OJSC "PhosAgro-Cherepovets". In accordance with the Russian law, those minority shareholders who voted against the merger or withheld from voting, obtain the right to put their shares to the respective entities. In April 2012, the Board of Directors of OJSC "Ammophos" and Supervisory Board of JSC "Cherepovetsky "Azot" approved repurchase of shares from those shareholders who decided to put their shares to the respective entities for RUB 367 million. After the repurchase the Group's share in OJSC "Ammophos" and JSC "Cherepovetsky "Azot" was 94.1% and 70.6%, respectively. The legal structuring was completed in July 2012. The Group's share in OJSC "PhosAgro-Cherepovets" is 87.6%.

(e) Acquisition of non-controlling stakes in OJSC "Apatit"

In September 2012, the Group offered RUB 11,110 million in the privatisation tender for the Russian Federation's 20% stake in all issued shares of OJSC "Apatit" and signed a purchase agreement for the shares. On 4 October 2012, the Group paid for the shares and the legal title for the shares was transferred to the Group increasing its shareholding from 57.57% to 77.57%. The carrying amount of Apatit's net assets on the date of the acquisition was RUB 37,526 million. The financial effect of this transaction is a decrease in non-controlling interests by RUB 7,505 million and a decrease in retained earnings by RUB 3,605 million.

The Government of the Russian Federation issued an Order No 2901-R, dated 11 October 2012, which cancelled its special right to participate in the governance of OJSC "Apatit" (the "Golden Share").

In November 2012, the Group launched a mandatory tender offer to acquire ordinary and preferred shares of OJSC "Apatit". The offering price, which was determined in accordance with the Russian law, was RUB 6,679.9 per ordinary share and RUB 5,344.0 per type "A" preferred share. For the purposes of the mandatory buyout the Group obtained a bank guarantee in the amount of RUB 7,785 million. The offer period expired on 17 January 2013. As at 18 January 2013, holders of 10.95% of all issued shares of OJSC "Apatit" (738,957 ordinary and 171,439 type "A" preferred shares) accepted the Company's mandatory tender offer. In January 2013, the legal title for the shares was transferred to the Group increasing its shareholding from 77.57% to 88.52%. The financial effect of this transaction was a decrease in non-controlling interests by RUB 4,224 million and a decrease in retained earnings by RUB 1,633 million.

In April 2013, the Company sent a compulsory share purchase notification (squeeze out) to OJSC "Apatit" for the buyout of shares belonging to OJSC "Apatit" minority shareholders. The purchase price, which was determined in accordance with the Russian law, is RUB 6,880 per ordinary share and RUB 5,504 per type "A" preferred share. As at 30 September 2013, holders of 4.05% of all issued shares of OJSC "Apatit" (98,913 ordinary and 238,138 type "A" preferred shares) accepted the Company's share purchase notification. The financial effect of this transaction is a decrease in non-controlling interests by RUB 1,693 million and a decrease in retained earnings by RUB 331 million.

In addition to the squeeze out, the Group purchased 76% of CJSC "Nordic Rus Holding", which owns 7.42% in OJSC "Apatit" (617,430 ordinary shares), for RUB 4,676 million (USD 141.92 million). The financial effect of this transaction is a decrease in non-controlling interests by RUB 3,507 million and a decrease in retained earnings by RUB 685 million.

25. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the year after adjustment for the share split, see note 2424(a), and effect of treasury shares. Basic and diluted earnings per share are the same, as there is no effect of dilution.

	2013	2012
Weighted average number of ordinary shares in issue	128,027,528	124,477,080
Profit for the year attributable to ordinary shareholders of the Parent, RUB million	7,660	20,654
Basic and diluted earnings per share, RUB	60	166

26. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the finance leases, see note 28(a). For more information about the Group's exposure to foreign currency risk, see note 30(a).

RUB Million	Contractual interest rate	31 December 2013	31 December 2012
Current loans and borrowings			
Secured bank loans:			
RUB-denominated	1.5%-3.25%	76	277
Unsecured bank loans:			
RUB-denominated	8.75%-12.0%	-	519
USD-denominated	LIBOR(1M)+1.4%-2.9%	10,546	12,502
USD-denominated	LIBOR(3M)+2.6%	-	7,593
USD-denominated	1.35%	818	-
Secured letters of credit:			
EUR-denominated	LIBOR(6M)+2.05%-2.1%	-	250
EUR-denominated	EURIBOR(3M)+1.95%	-	33
RUB-denominated	EURIBOR(6M)+0.9%	-	200
Unsecured loans from associates			
EUR-denominated	4.50%	361	-
Unsecured loans from other companies			
USD-denominated	LIBOR(12M)+1.25%	327	-
Finance lease liabilities:			
USD-denominated	7.1%-13.9% [3]	769	606
Interest payable:			
RUB-denominated		2	37
USD-denominated		307	-
		13,206	**22,017**
Non-current loans and borrowings			
Secured bank loans:			
RUB-denominated	1.5%-3.25%	-	23
Unsecured bank loans:			
RUB-denominated	8.25%-9.15%	207	-
USD-denominated	LIBOR(1M)+2.1%-2.52%	18,469	9,971
USD-denominated	LIBOR(3M)+2.9%	1,636	1,519
Secured letters of credit:			
USD-denominated	EURIBOR(6M)+2.3%	217	336
EUR-denominated	EURIBOR(3M)+1.95%	-	200
EUR-denominated	EURIBOR(6M)+3.25%	274	481
Loan participation notes:			
USD-denominated[4]	4.204% [4]	16,281	-
Finance lease liabilities:			
USD-denominated	7.1%-13.9% [3]	2,466	1,922
		39,550	**14,452**
		52,756	**36,469**

See note 16(b) on the assets pledged as a security for bank loans.

[3] Contractual interest rate on financial lease agreements consists of the following components:

- interest rate and fees to a lessor
- insurance of property
- property tax

[4] In February 2013, the Company's SPV issued a USD 500 million 5-year Eurobond with a coupon rate of 4.204%, which is listed on the Irish Stock Exchange.

In addition to the pledges the loan agreements contain a number of restrictive covenants, such as maintaining a minimum turnover on the current account, limiting the maximum joint indebtness and minimum total assets of several Group subsidiaries, net debt to EBITDA ratio and EBITDA to interest expense ratio. The Group complied with these covenants during the year.

27. DEFINED BENEFIT OBLIGATIONS

	31 December 2013 RUB Million	31 December 2012 RUB Million
Pension obligations, long-term	599	904
Post-retirement obligations other than pensions	372	353
	971	**1,257**

Defined benefit pension plans relate to three subsidiaries of the Company: OJSC "Apatit", OJSC "PhosAgro-Cherepovets" and LLC "Metachem". The plans stipulate payment of a fixed amount of monthly pension to all retired employees, who have a specified period of service in the entities. The pension increases with the increase of the service period. The pension is paid over the remaining life of the pensioners. In addition, there is a defined benefit plan other than the pension plan in OJSC "Apatit". This defined benefit plan stipulates payment of a lump sum to employees who have a specified period of service in OJSC "Apatit" upon their retirement. All defined benefit plans are unfunded. The movement in the present value of the defined benefit obligations is as follows:

	RUB Million
Defined benefit obligations at 1 January 2012	922
Benefits paid	(190)
Current service costs and interest	121
Past service costs	1
Curtailment gain	(23)
Actuarial loss in other comprehensive income	426
Defined benefit obligations at 1 January 2013	**1,257**
Benefits paid	(404)
Current service costs and interest	112
Past service credit	(116)
Actuarial loss in other comprehensive income [5]	122
Defined benefit obligations at 31 December 2013	**971**

The key actuarial assumptions used in measurement of the defined benefit obligations are as follows:

	31 December 2013	31 December 2012
Discount rate	7.9%	7%
Future pension increases	5%	5%

[5] Including deferred tax benefit of RUB 11 million recognized in other comprehensive income, see note 18(b)

28. LEASES

(a) Finance leases

LLC "PhosAgro-Trans", a Group subsidiary, has entered into several agreements to lease 2,250 railway wagons. Other Group subsidiaries also have entered into lease agreements in 2013 and 2012. At the end of the lease term, the ownership for the leased assets will be transferred to the lessee.

	2013		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	1,067	298	769
Between one and five years	2,703	509	2,194
More than five years	287	15	272
	4,057	**822**	**3,235**

	2012		
RUB Million	Minimum lease payments	Interest	Principal
Less than one year	833	227	606
Between one and five years	2,041	450	1,591
More than five years	358	27	331
	3,232	**704**	**2,528**

(b) Operating leases

During 2012-2013, LLC "PhosAgro-Trans", a group subsidiary, entered into several operating lease agreements to rent railway wagons. The rent payments for 2013, which are recorded in the cost of sales, amounted to RUB 693 million (2012: RUB 873 million).

The non-cancellable operating lease rentals are payable as follows:

	31 December 2013 RUB Million	31 December 2012 RUB Million
Less than one year	503	482
Between one and five years	376	-
	879	**482**

29. TRADE AND OTHER PAYABLES

	31 December 2013 RUB Million	31 December 2012 RUB Million
Trade accounts payable	2,179	2,578
Advances received	1,793	2,252
Taxes payable	1,614	1,157
Accruals	1,633	1,413
Payable for property, plant and equipment	916	1,138
Payables to employees	1,092	742
Dividends payable	63	2,996
Other payables	87	101
	9,377	**12,377**

30. FINANCIAL INSTRUMENTS

(a) Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

The Group has the following foreign-currency-denominated financial assets and liabilities:

RUB Million	31 December 2013		31 December 2012	
	USD denominated	EUR denominated	USD denominated	EUR denominated
Current assets				
Receivables	1,411	569	2,530	41
Cash and cash equivalents	4,332	534	2,912	49
Non-current liabilities				
Loans and borrowings	(39,069)	(274)	(13,748)	(681)
Current liabilities				
Payables	(53)	(90)	(673)	(87)
Loans and borrowings	(12,440)	(361)	(20,701)	(283)
	(45,819)	**378**	**(29,680)**	**(961)**

Management estimate that a 10% strengthening/(weakening) of the USD and EUR against Russian Ruble, based on the Group's exposure as at the reporting date would have decreased/(increased) the Group's net profit for the year by RUB 4,544 million, before any tax effect (2012: RUB 3,064 million). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

(b) Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	31 December 2013 RUB Million	31 December 2012 RUB Million
Fixed rate instruments		
Long-term loans issued at amortised cost	432	363
Finance lease receivable	123	79
Short-term deposits	2,349	2,404
Short-term loans issued at amortised cost	1,585	833
Long-term borrowings	(18,954)	(1,945)
Short-term borrowings	(2,024)	(1,439)
	(16,489)	**295**
Variable rate instruments		
Long-term borrowings	(20,596)	(12,507)
Short-term borrowings	(10,873)	(20,578)
	(31,469)	**(33,085)**

At 31 December 2013, a 1% increase/(decrease) in LIBOR/EURIBOR would have decreased/(increased) the Group's profit or loss and equity by RUB 315 million (31 December 2012: RUB 331 million).

(c) Liquidity risk

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

	31 December 2013							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	76	76	76	-	-	-	-	-
Unsecured bank loans	31,676	33,165	11,981	4,574	11,935	3,431	1,244	-
Unsecured loans from associates	361	375	375	-	-	-	-	-
Unsecured loans from other companies	327	329	329	-	-	-	-	-
Letters of credit	491	535	15	229	9	282	-	-
Interest payable	309	309	309	-	-	-	-	-
Secured finance leases	3,235	4,057	1,067	870	783	601	449	287
Loan participation notes	16,281	19,376	673	671	672	671	16,689	-
Trade and other payables	4,878	4,878	4,878	-	-	-	-	-
Financial guarantees issued for associates and related parties	2,477	2,477	83	-	10	3	36	2,345
	60,111	**65,577**	**19,786**	**6,344**	**13,409**	**4,988**	**18,418**	**2,632**

	31 December 2012							
RUB Million	Carrying value	Contractual cash flows	0-1 year	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Secured bank loans	300	357	299	58	-	-	-	-
Unsecured bank loans	32,104	33,858	21,259	8,111	3,628	860	-	-
Letters of credit	1,500	1,548	516	224	355	15	438	-
Interest payable	37	37	37	-	-	-	-	-
Secured finance leases	2,528	3,232	833	596	549	510	386	358
Trade and other payables	8,226	8,226	8,226	-	-	-	-	-
Financial guarantees issued for related parties	609	609	609	-	-	-	-	-
	45,304	**47,867**	**31,779**	**8,989**	**4,532**	**1,385**	**824**	**358**

(d) Fair values

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

31. COMMITMENTS

The Group has entered into contracts to purchase plant and equipment for RUB 23,891 million (31 December 2012: RUB 4,542 million).

32. CONTINGENCIES

(a) Litigation

The Group has a number of small claims and litigations relating to regular business activities and small fiscal claims. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Environmental contingencies

The environmental legislation, currently effective in the Russian Federation, is relatively new and characterised by frequent changes, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different authorities.

The Group is involved in chemical production, which is inherently exposed to significant environmental risks. The Group companies record environmental obligations as they become probable and reliably measurable. The Group companies are parties to different litigations with the Russian environmental authorities. The management believes that based on its interpretations of applicable Russian legislation, official pronouncements and court decisions no provision is required for environmental obligations. However, the interpretations of the relevant authorities could differ from management's position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

33. RELATED PARTY TRANSACTIONS

(a) Transactions and balances with associates

(i) Transactions with associates

	2013 RUB Million	2012 RUB Million
Sales of goods and services	9,173	4,993
Interest income	113	69
Acquisition of CJSC "Nordic Rus Holding"	(4,676)	-
Acquisition of PhosInt Trading Ltd and PhosAgro Asia Pte Ltd	(146)	-
Purchases of goods and services	(833)	(218)
Interest expense	(11)	-

(ii) Balances with associates

	31 December 2013 RUB Million	31 December 2012 RUB Million
Short-term loans issued, at amortised cost	-	664
Advances issued for construction of property, plant and equipment	33	345
Trade and other receivables	447	803
Trade and other payables	(13)	(34)
Short-term loans received	(361)	-

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of associates amounting to RUB 2,151 million (31 December 2012: nil), see note 30(c).

(b) Transactions and balances with other related parties

(i) Transactions with other related parties

	2013 RUB Million	2012 RUB Million
Sales of goods and services	406	783
Purchases of goods and services	(289)	(707)
Interest income	2	19

(ii) Balances with other related parties

	31 December 2013 RUB Million	31 December 2012 RUB Million
Short-term loans issued, at amortised cost	17	57
Long-term loans issued, at amortised cost	48	38
Trade and other receivables	12	253
Trade and other payables	(47)	(80)
Dividends payable to shareholders of the Parent	-	(2,911)

(iii) Financial guarantees

The Group issued financial guarantees to banks on behalf of related parties amounting to RUB 326 million (31 December 2012: RUB 609 million), see note 30(c).

(iv) Key management remuneration

The remuneration of the Board of Directors and 18 members of key management personnel amounted to RUB 405 million (2012: RUB 364 million).

34. ACQUSITION OF SUBSIDIARIES AND NON-CONTROLLING INTERESTS

(a) Acquisition of CJSC “Nordic Rus Holding”

In August 2013, the Group acquired 76% in CJSC “Nordic Rus Holding” which owns 7.42% of OJSC “Apatit” (617,430 ordinary shares) for a consideration of RUB 4,676 million (USD 141.92 million). In 2012, the Group purchased 24% of CJSC “Nordic Rus Holding” for a total consideration of RUB 987 million (USD 31.76 million).

Since the activities of CJSC “Nordic Rus Holding” were limited to holding of investments in OJSC “Apatit” and other financial assets, the acquisition was treated as an acquisition of assets rather than a business combination. Since OJSC “Apatit” was a Group subsidiary at the moment of acquisition, the excess of the consideration paid which was determined by reference to the fair value of the shares in OJSC “Apatit” over the carrying value of the acquired minority stake in OJSC “Apatit” in the amount of RUB 685 million was recognised in equity as a result of acquisition of non-controlling interests.

The consideration paid was allocated to financing activity in the amount equal to the fair value of the shares of OJSC “Apatit” and to the investing activity in the amount equal to the fair value of other assets acquired.

The provisionally determined fair value of the identifiable assets and liabilities of CJSC “Nordic Rus Holding” at the date of consolidation is as follows:

	RUB Million
Income tax receivable	21
Trade and other receivables	75
Current financial assets	1,592
Cash and cash equivalents	202
Net identifiable assets and liabilities	1,890
Less amount of consideration paid	(4,676)
Less fair value of the investment in associate at the date of consolidation	(1,406)
Decrease of non-controlling interest in OJSC “Apatit”	3,507
Result from consolidation	**(685)**
Cash and cash equivalents acquired	202
Less amount of consideration paid	(4,676)
Net cash outflow	**(4,474)**
Allocated to:	
Investing activity	(1,680)
Financing activity	(2,794)

(b) Acquisition of PhosInt Trading Limited and PhosAgro Asia Pte Ltd

In August 2013, the Group acquired 100% in PhosInt Trading Limited which is an owner of 100% PhosAgro Asia Pte Ltd for a consideration of RUB 146 million (USD 4.41 million).

Management believes that there is no material difference between the book value and the fair value of the net assets of the acquired companies. The provisionally determined fair value of the identifiable assets and liabilities of PhosInt Trading Limited and PhosAgro Asia at the date of consolidation is as follows:

	RUB Million
Property, plant and equipment	1
Inventories	92
Trade and other receivables	960
Cash and cash equivalents	1,289
Current loans and borrowings	(1,227)
Trade and other payables	(954)
Net identifiable assets and liabilities	161
Less amount of consideration paid	(146)
Negative goodwill on consolidation	**15**
Cash and cash equivalents acquired	1,289
Less amount of consideration paid	(146)
Net cash inflow	**1,143**

35. SIGNIFICANT SUBSIDIARIES

Subsidiary	Country of incorporation	31 December 2013 Effective ownership (rounded)	31 December 2012 Effective ownership (rounded)
Apatit, OJSC [6]	Russia	100%	78%
PhosAgro-Cherepovets, OJSC [7]	Russia	88%	88%
Balakovo Mineral Fertilizers, CJSC [8]	Russia	100%	100%
Metachem, LLC [9]	Russia	100%	75%
NIUIF, OJSC	Russia	94%	94%
PhosAgro AG, CJSC	Russia	100%	100%
Agro-Cherepovets, CJSC	Russia	100%	100%
PhosAgro-Region, LLC	Russia	100%	100%
PhosAgro-Trans, LLC	Russia	100%	100%
PhosAgro-Belgorod, LLC	Russia	100%	100%
PhosAgro-Don, LLC	Russia	100%	100%
PhosAgro-Kuban, LLC	Russia	100%	100%
PhosAgro-Kursk, LLC	Russia	100%	100%
PhosAgro-Lipetsk, LLC	Russia	75%	75%
PhosAgro-Oryol, LLC	Russia	100%	100%
PhosAgro-Stavropol, LLC	Russia	100%	100%
PhosAgro-Volga, LLC	Russia	100%	87%
Trading house PhosAgro, LLC	Russia	100%	100%
Phosint Trading Limited [10]	Cyprus	100%	49%
PhosAgro Asia Pte Ltd [10]	Singapore	100%	-
Nordic Rus Holding, CJSC [11]	Russia	100%	24%

[6] See note 24(e) on acquisition of non-controlling stakes in OJSC “Apatit”
[7] See note 24(d) on merger of OJSC “Ammophos” and JSC “Cherepovetsky “Azot” into OJSC “PhosAgro-Cherepovets”
[8] Previous legal name – LLC “Balakovo Mineral Fertilizers”
[9] See note 17 on consolidation of LLC “Metachem”
[10] See note 34(b) on acquisition of PhosInt Trading Limited and PhosAgro Asia Pte Ltd
[11] See notes 17 and 34(a) on acquisition of CJSC “Nordic Rus Holding”

Non-controlling interests

Information of the Group's subsidiaries that have significant non-controlling interests is as follows:

	PhosAgro-Cherepovets, OJSC
2013	
Non-controlling interest	12.4%
Non-current assets	26,385
Current assets	28,746
Non-current liabilities	(22,631)
Current liabilities	(8,254)
Net assets	**24,246**
Accumulated non-controlling interests	**3,007**
Revenue	53,753
Net profit for the year	811
Profit allocated to non-controlling interests	101
Share of non-controlling interests in actuarial gains and losses	(6)

The remaining portion of profit allocated to the non-controlling interest relates mainly to OJSC "Apatit" where the Group's ownership percentage increased from 78% to 100%.

Cash flows from operating activities	5,115
Cash flows from investing activities	2,137
Cash flows used in financing activities	(7,235)

36. EVENTS SUBSEQUENT TO THE REPORTING DATE

In January 2014, the Group signed a USD 440.6 million loan agreement, backed by a guarantee from the Nippon Export and Investment Insurance (NEXI), with the Japan Bank for International Cooperation (JBIC) and a group of banks consisting of Bank of Tokyo-Mitsubishi (BTMU), Citibank Japan and Mizuho Bank. JBIC will provide USD 264.4 million (60% of the total) with a tenure of 13 years, while BTMU, Citi Japan and Mizuho Bank will lend USD 176.2 million (40% of the total) with a tenure of seven years. The proceeds from the loan will be used to fund construction of a new 760 ths tonnes/year ammonia plant at PhosAgro-Cherepovets in the Vologda region. The construction contract for the ammonia plant was signed with an international consortium led by Mitsubishi Heavy Industries Ltd in June 2013.

In February 2014, the Group jointly with "Ultramar" launched new subsidiary LLC "Smart Bulk Terminal" with a share capital of RUB 10,000 in which it owns 70%. The Company will organize the construction and subsequent operation of the new terminal at the port of Ust-Luga where it will handle fertilizers produced and sold by the Group.

In February 2014, the Group launched a voluntary tender offer to acquire ordinary shares of OJSC "PhosAgro-Cherepovets". The offered price, which was determined in accordance with the Russian law, is RUB 44.0 per ordinary share with a nominal value of RUB 1.10. For the purposes of the voluntary buyout the Group obtained a bank guarantee in the amount of RUB 10,800 million. The offer period expired on 6 May 2014. As of the date of the financial statements issuance, holders of 0.0058% of all issued shares of OJSC "PhosAgro-Cherepovets" (73,007 ordinary shares), accepted the Company's voluntary tender offer.

In April 2014, the Board of Directors proposed paying a dividend of RUB 19.30 per ordinary share to shareholders included in the register of shareholders as of 15 April 2014. The total amount of proposed dividends was RUB 2,499 million.